

Westminster Scrutiny Commission

Date:	18 th November 2014
Classification:	General Release
Title:	LOCAL GOVERNMENT ASSOCIATION FINANCE REFORM PAPER
Report of:	Policy & Scrutiny Manager
Cabinet Member Portfolio	Leader of the Council
Wards Involved:	All
Policy Context:	Better City Better Lives
Report Author and Contact Details:	Mark Ewbank x2636 mewbank@westminster.gov.uk

1. Executive Summary

- 1.1 An independent commission has been tasked with making recommendations for the reform of local government finance and finding better ways to fund local services and promote economic growth in England. The Independent Commission on Local Government Finance is chaired by Darra Singh, partner in the Government and Public Sector team at EY. Its recommendations will be presented to all of the main political parties with the aim of shaping the debate on the future of local government finance and influencing the next government.
- 1.2 The Commission has been established by the Local Government Association (LGA), the national voice of local government, and the Chartered Institute for Public Finance (CIPFA), the professional body for public finance professionals. Last year both the LGA and CIPFA individually set out proposals for the urgently needed reform of public services to make them fit for the 21st century.

2. Key Matters for the Committee's Consideration

- 2.1 Would the Commission wish to make a representation or submit evidence to the rest of the Inquiry?

3. Background

- 3.1 The Independent Commission on Local Government Finance is tasked with making recommendations for the reform of local government finance and find better ways to fund local services and promote economic growth in England.
- 3.2 The commission's final recommendations on the future of local government finance will be presented to all of the main political parties with the aim of shaping the debate on the future of local government and influencing the next government.
- 3.3 The Commission will explore how an improved local government finance system could help to address five key challenges facing the country within the context of lower public spending:
 - § Promoting economic growth and investment in infrastructure.
 - § Ensuring sufficient housing is provided in every place.
 - § Integrating the health and social care systems to promote independent living, including preventing unnecessary health interventions.
 - § Achieving a welfare benefits system that promotes work and protects the vulnerable.
 - § Supporting families and developing young lives through early intervention.
- 3.4 The Commission held its first meeting in May 2014. An interim report was recently published and appended to this report. The Commission has a view to publish its final recommendations in early 2015, after further solicitation of evidence.

4. Interim findings

- 4.1 In submissions and meetings the Commission has been repeatedly told that the local government finance system is broken. They report that evidence suggest that the system undermines councils' accountability to their local communities; as it is virtually impossible to understand; holds back economic growth; promotes fragmentation of services instead of integration; inhibits sound management of public finances; and encourages a sense of dependency among councils instead of self-reliance and ambition.
- 4.2 The Commission has heard that two developments have given reform a new urgency. Faced with the long term cut in local government funding, councils and their partners could be far more efficient, effective and creative in their use of the totality of public money if they had the freedom. Meanwhile, the debate over more powers for Scotland, and the near universal acceptance that decisions are best taken as close to the citizen as possible, has created a rare opportunity to secure devolution within England.
- 4.3 It is also reported that there is growing interest in local government becoming self-sufficient. By 2018/19 business rates and council tax revenues will exceed

local government's projected funding. This will come about as a result of further reductions in government funding which will see total public sector funding fall to around 37% of national income. However, this could provide the foundations for a financially self-sufficient local government. The City Growth Commission's Final Report, 'Unleashing Metro Growth' acknowledges that cities need both the decision-making powers and the financial flexibility to make them self-sufficient. Local flexibility over council tax bands and valuations would help break the logjam over reforming it.

- 4.4 The Commission report that a reformed finance system will still need an element of equalisation — redistribution of money between areas to reflect differences in wealth — but it should also provide incentives for economic growth, such as retaining additional business rates, and promote a clearer relationship between where money is raised and where it is spent. It is considered that the business rates retention system has hints of self-sufficiency, but the overall package is reportedly too limited to be effective. On housing, the Commission have been told that the crisis in supply will not abate until local government has a revitalised role in local housing markets. **Local authorities should be able to borrow to invest in social housing which provides a return, under the same rules as registered social landlords and without any artificial limits.**
- 4.5 The Commission believes the need for reform is urgent, and sees an opportunity to establish a funding system for local government which is largely self-sufficient. This should include **powers to set council tax bands locally, revalue properties regularly and raise additional revenues.** These features are seen by the Commission as key to ensuring public services are sustainable in an age of austerity.
- 4.6 It is clear that councils have an important role to play in addressing the chronic shortage of housing, and the Commission recommend that they should be able to **borrow to invest in social housing.** Reforming the powers and funding of local government would support national policy objectives such as growing the economy and integrating public services. For example, policy around **housing, welfare support skills and training could be developed as a single coherent framework, while giving councils and local businesses more control over skills development would be a major advantage for the UK economy.** It is reported that by addressing the fragmentation in funding and control of services around children and families, it would save money and improve life chances.
- 4.7 The Commission agree that Government needs to support effective financial planning by announcing **multi-year funding settlements.** There has been much debate about local choice and national standards. They consider that the time is now right for a conversation between comparable outcomes and local decision making. Moves towards early intervention and prevention are essential. One way that has been proposed to achieve effective pooling for early intervention is to create a central fund which offers to match-fund any local partnership contributions. In Northern Ireland and in Scotland central

funds for early action have been created. The Commission will be looking at these and other approaches in the next stages of their work.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact
Mark Ewbank x2636
mewbank@westminster.gov.uk**

APPENDICES

The Interim Report of the Independent Commission on Local Government Finance

BACKGROUND PAPERS